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Oil Prices Predicted to Stay High

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The Energy Department yesterday significantly increased its projection for oil prices in 20 years to about \$54 a barrel after concluding that Middle Eastern oil-producing countries are spending less than previously expected on expanding production.

That price is about \$21 higher than had been predicted last year by the department's Energy Information Administration.

"It has to do with a reassessment of the willingness of oil-rich countries to expand their oil-production capacity," said G. Daniel Butler, an analyst with the Energy Information Administration. "We're not as bullish on expansion of production capacity, especially from OPEC members."

Oil prices have soared as worldwide demand has increased faster than production. The report, updated annually, said the United States and "emerging Asia -- notably, China -- are expected to lead the increase in demand for world oil supplies, keeping pressure on prices through 2030."

The projections often change year by year, though officials said the gap between last year's estimates and this year's projections is unusually large. As prices have become volatile, analysts have had difficulty in accurately projecting them.

Oil-producing countries lack the ability to significantly increase production in response to a supply disruption elsewhere. Oil traders have pushed up prices, fearing that terrorist attacks or other disruptions could lead to shortages. Prices rose after hurricanes Katrina and Rita damaged oil production in the Gulf of Mexico this fall.

The Energy Department analysis is in constant 2004 dollars and includes a number of scenarios that could significantly alter prices. The "reference case" scenario, which assumes no policy changes, predicts that oil will cost about \$47 a barrel in 2014, climb to about \$54 a barrel in 2025 and \$57 a barrel in 2030.

The oil prices reflect the average price that U.S. refiners pay for premium imported crude oil. Those prices tend to be close to benchmark crude oil prices on the New York Mercantile Exchange. Prices now are slightly above \$60 a barrel on the mercantile exchange.

The forecast also calls for declines in natural gas prices, which have risen to unusually high levels during the past year. The average wellhead price -- slightly lower than prices on the New York Mercantile Exchange -- is forecast to fall to \$4.46 per thousand cubic feet in 2016 and rise to about \$5.90 per thousand cubic feet in 2030. Prices are now above \$10 per thousand cubic feet.

Higher oil prices should lead to increased demand for unconventional transportation fuels, including

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ethanol and biodiesel, according to the analysis. The report predicts that at those higher prices, less oil will be consumed than had been anticipated. The report expects that drivers will purchase more-fuel-efficient vehicles.

Because of changes in the supply and demand forecasts, the Energy Information Administration expects net oil imports will meet 60 percent of U.S. demand in 2025; the agency had forecast 68 percent last year.

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